# AMERICAN VANADIUM CORP.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

## AS AT AND FOR THE THREE MONTHS ENDED MARCH 31, 2014

**Management's Comments on Unaudited Financial Statements**

The accompanying unaudited condensed consolidated interim financial statements of American Vanadium Corp. (the "Company") as at and for the three months ended March 31, 2014 have been prepared by management and approved by the Board of Directors of the Company. These financial statements have not been reviewed by the Company's external auditors.

**AMERICAN VANADIUM CORP.**
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS (UNAUDITED)
IN CANADIAN DOLLARS

| | **March 31** | December 31 |
|---|---|---|
| | **2014** | 2013 |
| | **$** | $ |
| **ASSETS** | | |
| **Current assets** | | |
| Cash | **3,044,553** | 1,460,897 |
| Amounts receivable | **49,351** | 49,479 |
| Prepaid expenses (Note 7) | **116,240** | 123,101 |
| Total current assets | **3,210,144** | 1,633,477 |
| Equipment and deposit on equipment (Note 4) | **133,929** | 142,580 |
| Reclamation deposit | **169,830** | 148,393 |
| Mineral properties (Note 5) | **1,950,449** | 1,917,284 |
| **Total assets** | **5,464,352** | 3,841,734 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (Note 7) | **824,786** | 1,490,661 |
| **Total liabilities** | **824,786** | 1,490,661 |
| **Shareholders' equity** | | |
| Share capital (Note 6) | **28,064,281** | 24,097,538 |
| Equity reserves | **3,550,986** | 3,493,384 |
| Deficit | **(26,975,701)** | (25,239,849) |
| **Total shareholders' equity** | **4,639,566** | 2,351,073 |
| **Total liabilities and shareholders' equity** | **5,464,352** | 3,841,734 |

**Basis of presentation and continuance of operations (Note 2)**

**Commitments and contingencies (Note 12)**

**Events after the reporting period (Note 13)**

**On behalf of the Board:**

*Signed: "William Radvak"* Director

*Signed: "Brian E. Bayley"* Director

The accompanying notes are an integral part of these consolidated financial statements.

**AMERICAN VANADIUM CORP.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)
IN CANADIAN DOLLARS

| | **For the three months ended March 31** | For the three months ended March 31 |
|---|---|---|
| | **2014** | 2013 |
| | **$** | $ |
| **Exploration and evaluation expenses** (Note 5) | **(834,864)** | (920,809) |
| **General and administrative expenses:** | | |
| Salaries and benefits (Note 7) | **372,325** | 194,738 |
| Consulting (Note 7) | **228,230** | 111,152 |
| Stock-based compensation (Note 7) | **57,602** | 14,095 |
| Travel | **42,336** | 31,865 |
| Office facilities and administrative services (Note 7) | **50,430** | 42,852 |
| Audit and legal | **11,047** | 34,198 |
| Investor relations and shareholder information | **13,346** | 42,287 |
| Office and sundry | **30,733** | 28,881 |
| Transfer agent, listing and filing fees | **27,838** | 25,109 |
| Amortization (Note 4) | **8,651** | 7,081 |
| **Total general and administrative expenses** | **(842,538)** | (532,258) |
| Foreign exchange (loss) gain | **(60,672)** | 24,905 |
| Interest income | **2,222** | 617 |
| **Net comprehensive loss** | **(1,735,852)** | (1,427,545) |
| **Basic and diluted loss per share** (Note 11) | **(0.03)** | (0.04) |

**AMERICAN VANADIUM CORP.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
IN CANADIAN DOLLARS

| | Share Capital | Equity Reserves | Deficit | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Balance, December 31, 2012 | 17,461,187 | 2,876,809 | (16,960,304) | 3,377,692 |
| Share issue costs | (2,725) | - | - | (2,725) |
| Exercise of stock options | 56,151 | (18,875) | - | 37,276 |
| Stock-based compensation | - | 14,095 | - | 14,095 |
| Net comprehensive loss for the period | - | - | (1,427,545) | (1,427,545) |
| Balance, March 31, 2013 | 17,514,613 | 2,872,029 | (18,387,849) | 1,998,793 |
| Private placements, net of share issuance costs | 6,449,925 | 281,048 | - | 6,730,973 |
| Performance and bonus shares | 133,000 | - | - | 133,000 |
| Stock-based compensation | - | 340,307 | - | 340,307 |
| Net comprehensive loss for the year | - | - | (6,852,000) | (6,852,000) |
| Balance, December 31, 2013 | 24,097,538 | 3,493,384 | (25,239,849) | 2,351,073 |
| Private placements, net of share issuance costs | 3,909,419 | - | - | 3,909,419 |
| Performance and bonus shares (Note 6) | 57,324 | - | - | 57,324 |
| Stock-based compensation | - | 57,602 | - | 57,602 |
| Net comprehensive loss for the period | - | - | (1,735,852) | (1,735,852) |
| **Balance, March 31, 2014** | **28,064,281** | **3,550,986** | **(26,975,701)** | **4,639,566** |

The accompanying notes are an integral part of these consolidated financial statements.

**AMERICAN VANADIUM CORP.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS (UNAUDITED)
IN CANADIAN DOLLARS

| | **For the three months ended March 31 2014** | For the three months ended March 31 2013 |
|---|---|---|
| | **$** | $ |
| **CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES** | | |
| Net comprehensive loss | **(1,735,852)** | (1,427,545) |
| Items not involving cash: | | |
| Stock-based compensation | **57,602** | 14,095 |
| Salaries and benefits settled by issuance of performance and bonus shares | **57,324** | - |
| Amortization | **8,651** | 7,081 |
| Changes in non-cash working capital balances: | | |
| Deferred engineering management expense and deposit | **-** | (11,815) |
| Amounts receivable | **128** | (12,052) |
| Accounts payable and accrued liabilities | **(665,875)** | (133,270) |
| Prepaid expenses | **6,861** | 2,448 |
| Non-operating income: | | |
| Interest income | **(2,222)** | (617) |
| **Net cash used in operating activities** | **(2,273,383)** | (1,561,675) |
| **CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES** | | |
| Mineral property acquisition costs | **(33,165)** | (137,424) |
| Increase in reclamation deposit | **(21,437)** | (3,082) |
| Interest income | **2,222** | 617 |
| **Net cash used in investing activities** | **(52,380)** | (139,889) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from issuance of shares, net of issuance costs | **3,909,419** | 34,551 |
| Deferred financing fees | **-** | (750) |
| **Net cash provided by financing activities** | **3,909,419** | 33,801 |
| **Change in cash for the year** | **1,583,656** | (1,667,763) |
| **Cash, beginning of year** | **1,460,897** | 1,716,318 |
| **Cash, end of year** | **3,044,553** | 48,555 |

## 1. NATURE OF OPERATIONS

American Vanadium Corp. (the “Company”), incorporated under the *Canada Business Corporations Act*, is an exploration-stage resources company with title to strategic vanadium properties in the State of Nevada. The Company completed a feasibility study on its flagship Gibellini Property (“Gibellini”). The Company is currently in the environmental permitting stage for Gibellini, with plans to construct and operate the mine in the future, subject to obtaining necessary regulatory approvals, financing and supply arrangements.

The Company entered into a Memorandum of Understanding in February 2013 with Gildemeister Energy Solutions, Cellstrom GmbH (“Gildemeister”) of Germany under which it is contemplated that the Company will provide a long-term supply of vanadium electrolyte with stable pricing to Gildemiester. Pursuant to that Memorandum of Understanding, the Company has entered into a master sales agreement with Gildemeister whereby the Company will market and sell Gildemeister’s CellCube vanadium redox flow systems in North America.

The address of the Company’s principal place of business is Suite #910, 800 W. Pender Street, Vancouver, British Columbia, Canada, and its shares trade on the TSX-Venture Exchange (the “Exchange”) under the symbol “AVC” and are quoted on the OTCQX under the symbol “AVCVF”.

## 2. BASIS OF PRESENTATION AND CONTINUANCE OF OPERATIONS

### Statement of compliance

These unaudited condensed consolidated interim financial statements, including comparative periods, have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) and in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2013.

Significant accounting policies and the applicable basis of measurement used in the preparation of these unaudited condensed consolidated interim financial statements are described in Note 3.

These consolidated financial statements were authorized by the Board of Directors on May 22, 2014.

### Going concern

These consolidated financial statements have been prepared on the assumption that the Company will continue on a going concern basis. The Company has generally incurred net losses and negative operating cash flows since its inception, and the ability of the Company to continue as a going concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. Management is marketing Gildemeister’s CellCube vanadium redox flow batteries, which may provide some operating cash flow, but as this activity is still in a start-up phase, the Company is solely dependent upon its ability to raise funds in capital markets to meet its operating requirements and to finance the permitting and development of Gibellini.

There can be no assurance that the Company will be able to develop profitable operations or continue to raise additional funds, in which case the Company may be unable to meet its financial obligations. Should the Company be unable to generate funds from its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The Company’s ability to raise additional funds is dependent on favourable conditions in equity and alternative investment markets, which are volatile and subject to significant uncertainty. The Company will continue to identify alternative sources of financing, but anticipates reliance on equity markets in the near term. Based on these factors, there is a material uncertainty that exists which may cast significant doubt about the Company's ability to continue as a going concern.

As at March 31, 2014, the Company had a working capital surplus of $2,385,358 (December 31, 2013 - $142,816) and had $4,639,352 (December 31, 2013 - $2,351,073) in shareholders' equity.

## 3. SIGNIFICANT ACCOUNTING POLICIES

Except for the mandatory adoption of new IFRS, which are described under the heading "Adoption of new IFRS", these unaudited condensed consolidated interim financial statements have been prepared according to the same accounting policies and are subject to the same areas of judgment, measurement estimates and uncertainties as those disclosed in Note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2013.

### Basis of consolidation

These consolidated financial statements include the balances and results of the Company and those entities over which the Company exercises control. Control is achieved where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain the benefits from its operations.

These consolidated financial statements include the assets, liabilities, income and expenses of the Company and its wholly-owned U.S. subsidiary, American Vanadium US Inc. All intercompany transactions and balances have been eliminated on consolidation. Unless otherwise indicated, all amounts are reported in Canadian dollars.

### Basis of measurement and presentation currency

The balances in these consolidated financial statements are prepared using the accrual basis of accounting and have been measured on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value.

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company and American Vanadium US Inc.

### Adoption of new IFRS

The Company adopted the following new IFRS that became effective for fiscal years starting on January 1, 2014, which did not have a significant impact on the Company`s financial results:

IAS 32, "*Financial Instruments: Presentation*"

IAS 32 was amended to clarify requirements for offsetting financial assets and financial liabilities.

**Future changes in accounting policies**

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period. These standards have been assessed to not have a significant impact on the Company's financial statements:

i. IFRS 2, *"Share-based Payment"*

IFRS 2 is amended to clarify the definition of vesting conditions. This accounting policy applies to share-based payment transactions for which the grant date is on or after July 1, 2014.

ii. IFRS 3, *"Business Combinations"*

IFRS 3 is amended to provide clarification related to (i) contingent consideration in a business combination and (ii) scope exception for joint arrangements. These amendments are effective for fiscal years beginning on or after July 1, 2014.

iii. IFRS 8, *"Operating Segments"*

IFRS 8 is amended to require (i) disclosure of judgments made by management in aggregating segments, and (ii) a reconciliation of segment assets to the entity's assets when segment assets are reported. These amendments are effective for fiscal years beginning on or after July 1, 2014.

iv. IFRS 9, *"Financial Instruments"*

The IASB intends to replace IAS 39 – "Financial Instruments: Recognition and Measurement" in its entirety with IFRS 9 in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 can currently be adopted voluntarily, but is mandatory for years beginning on or after January 1, 2018.

v. IFRS 16, *"Property, Plant and Equipment and IFRS 38, Intangible Assets"*

IFRS 16 and IFRS 38 are amended to classify how gross carrying amount and accumulated depreciation or amortization are treated where an entity uses the revaluation model. These amendments are effective for fiscal years beginning on or after July 1, 2014.

vi. IFRS 24, *"Related Party Transactions"*

IFRS 24 is amended to (i) revise definition of "related party" to include an entity that provides key management personnel services to the reporting entity or its parent, and (ii) clarify related disclosure requirements. These amendments are effective for fiscal years beginning on or after July 1, 2014.

## 4. EQUIPMENT

Changes to the Company's equipment balances are as follows:

| | Field Equipment | Office Equipment | Vehicles | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Cost** | | | | |
| Balance, December 31, 2013 | 41,655 | 62,086 | 41,118 | 144,859 |
| **Balance, March 31, 2014** | **41,655** | **62,086** | **41,118** | **144,859** |
| **Accumulated amortization** | | | | |
| Balance, December 31, 2013 | 38,317 | 19,517 | 28,626 | 86,460 |
| Additions | 2,305 | 3,979 | 2,367 | 8,651 |
| **Balance, March 31, 2014** | **40,622** | **23,496** | **30,993** | **95,111** |
| **Carrying value** | | | | |
| December 31, 2013 | 3,338 | 42,569 | 12,492 | 58,399 |
| **March 31, 2014** | **1,033** | **38,590** | **10,125** | **49,748** |

As at March 31, 2014, the Company had paid $84,181as an instalment towards the purchase of equipment that has not been received. This amount is classified as a deposit on equipment until such time as the related equipment is operating at which point it will be reclassified as equipment and will be subject to amortization.

## 5. MINERAL PROPERTIES

### Summary of properties

a) Gibellini Property, Nevada, U.S.

In March 2006, the Company entered into a Mineral Lease Agreement to acquire 40 unpatented lode mining claims, paying US$60,000 upon the execution of the agreement. Pursuant to the terms of the agreement, the Company is required to pay a production royalty of 2.5% of the net smelter returns ("NSR") of all mineral substances produced from the claims, to a maximum of US$3,000,000, at which point the production royalty decreases to 2.0%. The Company is also required to pay US$30,000, quarterly, and such payments are credited against any future production royalties payable. As of March 31, 2014, the Company has paid a total of US$780,000 in these advance royalty payments, including US$30,000 paid during the three months ended March 31, 2014.

In December 2006, the Company entered into a Mineral Lease Agreement to acquire 12 unpatented lode mining claims, paying US$9,000 upon the execution of the agreement. Pursuant to the terms of the agreement the Company is required to pay an initial production royalty payment of US$30,000 within 60 days of production from the claims and a production royalty of 3.0% of NSR of all mineral substances produced from the claims. Also, the Company must pay an escalating series of annual payments, which will be credited against any future production royalties payable. As of December 31, 2013, the Company has paid a total of US$143,000 in these advance royalty payments, of which US$24,000 was paid in the year ended December 31, 2013; remaining payments are US$24,000, annually. Further the Company has the option to purchase these claims for a total purchase price of US$1,000,000.

In April 2007, the Company entered into a Mineral Lease Agreement to acquire 17 unpatented lode mining claims, paying US$10,000 upon the execution of the agreement. Pursuant to the terms of the agreement the

Company was required to pay US$15,000 annually as a prepayment towards a production royalty of 2.5% of NSR of all mineral substances produced from the claims. In 2011, the Company acquired full ownership of these claims for a cash payment of US$50,000 and the issuance of 25,000 of its common shares valued at $33,750, in addition to US$60,000 in cumulative annual payments made prior to acquisition, thereby eliminating future advance royalty payments.

In 2011, the Company staked 180 unpatented lode claims and seven placer claims and in 2012 an additional 196 unpatented lode claims were staked.

In August and October 2011, the Company entered into two lease agreements for water rights to support permitting and potential development of the Gibellini Property. Combined initial consideration for these rights included cash payments of US$195,000 and 50,000 common shares in the Company valued at $67,500. The Company was also required to make combined annual rental payments of US$225,000, which were adjusted for the Consumer Price Index. During the year ended December 31, 2013, the Company paid US$231,090 in such rental payments. Additionally, during the year ended December 31, 2013, the Company cancelled one of the agreements because the other rights were considered sufficient. The Company paid US$100,000 and has accrued for two further payments of US$25,000, one of which is due in each of 2014 and 2015. As a result of the cancellation, $390,338 in related capitalized costs from previous periods was written-off from the mineral property balance and an expense of $531,033 was incurred for the year ended December 31, 2013, comprising the amount written-off, the cancellation payments paid or accrued, and legal fees incurred for the cancellation.

b) Del Rio Property, Nevada, U.S.

In 2010, the Company acquired 120 claims through the staking process. No additional claims have been subsequently acquired.

c) Hot Creek Property, Nevada, U.S.

In 2010, the Company acquired 18 claims through the staking process. No additional claims have been subsequently acquired.

**Acquisition costs**

As at March 31, 2014 and prior periods, the carrying values of mineral properties were comprised solely of capitalized acquisition costs for mineral and related water rights. Changes to these carrying values are as follows:

| | **Gibellini** | **Del Rio** | **Hot Creek** | **Total** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| As at December 31, 2013 | 1,868,430 | 39,683 | 9,171 | 1,917,284 |
| Additions | 33,165 | - | - | 33,165 |
| **As at March 31, 2014** | **1,901,595** | **39,683** | **9,171** | **1,950,449** |

The Company has capitalized, rather than expensed, payments for mineral and related water rights on the basis that holding title to the related properties and water rights allows the Company to explore and develop these properties in the future. Acquiring and maintaining title to mineral properties involves certain inherent risks due to difficulties in determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

**Exploration and evaluation expenses**

During the three months ended March 31, 2014, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

| | Gibellini | Del Rio | Hot Creek | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Environmental permitting | 385,890 | - | - | 385,890 |
| Engineering, procurement and construction management | 126,243 | - | - | 126,243 |
| Metallurgy | 116,833 | - | - | 116,833 |
| General | 77,218 | - | - | 77,218 |
| Engineering | 42,520 | - | - | 42,520 |
| Benefits | 27,588 | - | - | 27,588 |
| Leach pad design | 22,866 | - | - | 22,866 |
| Satellite office | 19,675 | - | - | 19,675 |
| Geotechnical | 15,485 | - | - | 15,485 |
| Drilling and trenching | 546 | - | - | 546 |
| | **834,864** | **-** | **-** | **834,864** |

During the three months ended March 31, 2013, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

| | Gibellini | Del Rio | Hot Creek | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Engineering, procurement and construction management | 326,053 | - | - | 326,053 |
| Metallurgy | 258,365 | - | - | 258,365 |
| Environmental permitting | 160,403 | - | - | 160,403 |
| General | 64,176 | - | - | 64,176 |
| Power | 51,235 | - | - | 51,235 |
| Engineering | 30,665 | - | - | 30,665 |
| Geotechnical | 29,888 | - | - | 29,888 |
| Feasibility | 24 | - | - | 24 |
| | **920,809** | **-** | **-** | **920,809** |

## 6. SHAREHOLDERS' EQUITY

### Share capital

*Authorized*

Unlimited number of common voting shares with no par value.

*Issued and outstanding*

| | Number of Common Shares | Amount |
|---|---|---|
| | | $ |
| Outstanding, January 1, 2013 | 33,524,250 | 17,461,187 |
| Issued through private placements, net of share issuance costs | 13,267,698 | 6,447,200 |
| Issued on exercise of stock options | 53,250 | 56,151 |
| Issuance of bonus shares and vesting of performance shares | 325,000 | 133,000 |
| Outstanding, December 31, 2013 | 47,170,198 | 24,097,538 |
| Issued through private placements, net of share issuance costs | 10,000,000 | 3,909,419 |
| Issuance of bonus shares and vesting of performance shares | 142,500 | 57,324 |
| **Outstanding, March 31, 2014** | **57,312,698** | **28,064,281** |

*Private placements*

On April 11, 2013, the Company completed a non-brokered private placement of 1,607,698 common share units at a price of $0.70 per unit for gross proceeds of $1,125,388. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $1.20 until April 11, 2014. The value of these units has been bifurcated between common shares at a value of $0.58 per share and warrants at a value of $0.12 per one-half warrant. An additional 840 agent's warrants were issued as part of this private placement with a fair value of $93. Each agent's warrant entitles the holder to purchase one common share at a price of $1.20 per common share until April 11, 2014. Transaction costs for the private placement, which include cash commissions, and legal and other fees, totalled $14,075.

On September 30, 2013, the Company completed the first of two tranches of a non-brokered private placement. Under this tranche, the Company issued 8,130,000 common share units at a price of $0.50 per unit for gross proceeds of $4,065,000. Each unit consists of one common share, one-half of one common share purchase warrant exercisable at $0.60 ("0.60 Warrant") and one-half of one common share purchase warrant exercisable at $0.80 ("0.80 Warrant"). Each whole $0.60 Warrant entitles the holder to purchase an additional common share at a price of $0.60 until March 30, 2014 and each whole $0.80 Warrant entitles the holder to purchase an additional common share at a price of $0.80 until September 30, 2015. The value of these units has been bifurcated between common shares at a value of $0.49 per share with the residual value of $0.01 being attributed to the warrants. Agents for the private placement received 23,100 of the $0.60 Warrants and 23,100 of the $0.80 Warrants with a combined fair value of $3,628. Transaction costs for this tranche, which include cash commissions, and legal and other fees, totalled $154,663.

On November 4, 2013, the Company completed the second tranche of the September 30, 2013 non-brokered private placement. Under the second tranche, the Company issued 3,530,000 common share units at a price of $0.50 per unit for gross proceeds of $1,765,000. Each unit consists of one common share, one-half of one common share purchase warrant exercisable at $0.60 ("$0.60 Warrant") and one-half of one common share purchase warrant exercisable at $0.80 ("$0.80 Warrant"). Each whole $0.60 Warrant entitles the holder to purchase an additional common share at a price of $0.60 until May 4, 2014 and each whole $0.80 Warrant entitles the holder to purchase an additional common share at a price of $0.80 until November 4, 2015. The full value of these units is attributed to the value of the common shares. Agents for the private placement received 16,800 of the $0.60 Warrants and 16,800 of the $0.80 Warrants with a combined fair value of $3,104. Transaction costs for this tranche, which include cash commissions, and legal and other fees, totalled $59,400.

On March 6, 2014, the Company completed the first tranche of a non-brokered private placement of 10,000,000 common share units at a price of $0.40 per unit for gross proceeds of $4,000,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $0.60 until March 6, 2016. The full value of these units is attributed to the value of the common shares. Transaction costs for this tranche, which include legal and other fees, totalled $90,580. The second tranche was completed subsequent to March 31, 2014 and is discussed in Note 13.

*Restricted share units ("RSUs")*

The Company has an RSU plan, adopted in fiscal 2013, allowing the Board of Directors of the Company, at its discretion and in accordance with the requirements of the Exchange, to grant to directors, officers, employees and consultants to the Company, non-transferable RSUs. Upon meeting certain operational milestones or other vesting conditions, the RSUs will be exchanged for common shares in the Company for the recipient's benefit. RSUs will expire three years from grant if performance-based vesting conditions are not met.

The maximum number of RSUs that can be issued under the RSU plan is 3,500,000 and the combined maximum number of common shares issuable under the RSU and stock options plans shall not exceed a rolling 10% of the Company's issued and outstanding number of common shares. The Company may grant, subject to Exchange approval, compensatory shares or RSUs outside the RSU plan, which may have different characteristics than those permitted by the plan.

During the year ended December 31, 2013, the Company issued 200,000 RSUs to an employee of the Company. These RSUs will vest in tranches as certain environmental permitting and mine development milestones for Gibellini are achieved. No RSUs have vested as at March 31, 2014 no expense has been recognized for the potential achievement of vesting conditions.

*Bonus and performance shares*

Subject to shareholder or regulatory approvals, the Company may, outside the RSU plan, grant the shares to employees or consultants ("Bonus Shares") or the right for employees and consultants to earn common shares in the Company based on meeting certain performance conditions ("Performance Shares"). An expense is recorded for Performance Shares when it is considered likely that the performance conditions required will be met and that shares will be issued. An expense is recorded for Bonus Shares equivalent to the prevailing fair market value of the shares at the time of issuance. The expense recorded for Performance Shares and Bonus Shares results in a corresponding increase to the Company's share capital.

During the three months ended March 31, 2014, the Company granted 50,000 Bonus Shares with a fair value of $20,000.

Changes to the balance of unvested Performance Shares are as follows:

| | **Number of Performance Shares** | **Fair Market Value when Vested** |
|---|---|---|
| | | **$** |
| Outstanding, January 1, 2013 | 725,000 | N/A |
| Performance Shares granted | 310,000 | N/A |
| Performance Shares vested | (75,000) | 36,750 |
| Outstanding, December 31, 2013 | 960,000 | N/A |
| Performance Shares vested | (92,500) | 37,325 |
| **Outstanding, March 31, 2014** | **867,500** | **N/A** |

No expense has been recognized for the potential achievement of vesting conditions for Performance Shares outstanding as at March 31, 2014.

The performance milestones for the issuance of the Performance Shares outstanding as at March 31, 2014 are as follows:

| **Performance Milestone** | **Number of Shares Issuable** |
|---|---|
| Project permitting for the Gibellini property | 175,000 |
| Design and construction of mine leach pad on the Gibellini property | 200,000 |
| Completion of detailed engineering | 75,000 |
| Economic production of the Gibellini property | 200,000 |
| Business development and planning | 30,000 |
| Equity financing | 187,500* |

* These Performance Shares vested subsequent to March 31, 2014. As a result 62,500 Common Shares have been issued and an additional 125,000 will be issued on a scheduled timeline throughout 2014.

**Warrants**

Changes to the balance of warrants outstanding are as follows:

| | **Number of Warrants** | **Weighted Average Exercise Price** | **Weighted Average Fair Value** | **Weighted Average Remaining Life** |
|---|---|---|---|---|
| | | **$** | **$** | **(Years)** |
| Outstanding, January 1, 2013 | 3,780,087 | 1.20 | 0.21 | |
| Warrants expired | (2,167,160) | 1.35 | 0.26 | |
| Warrants issued as part of common share units | 12,463,848 | 0.73 | 0.02 | |
| Warrants issued as agent's and finder's fees | 80,640 | 0.71 | 0.08 | |
| Outstanding, December 31, 2013 | 14,157,415 | 0.76 | 0.04 | |
| Warrants issued as part of common share units | 5,000,000 | 0.60 | - | |
| Warrants expired | (1,636,027) | 0.99 | 0.14 | |
| **Outstanding, March 31, 2014** | **17,521,388** | **0.69** | **0.02** | **1.2** |

The fair value of warrants included in common share units is determined as the excess in the value of the unit over the market price of the Company's common shares on the date the units are issued.

The fair value of agent's and finder's warrants issued on a stand-alone basis is determined using the Black-Scholes option pricing model. On a weighted average basis, the following Black-Scholes model inputs have been used to value such warrants granted:

| | **For the three months ended March 31, 2014** | For the year ended December 31, 2013 |
|---|---|---|
| Risk-free interest rate | - | 1.55% |
| Annual dividends | - | - |
| Expected stock price volatility | - | 73.06% |
| Expected life | - | 1 year |

The following warrants were outstanding and exercisable as at March 31, 2014:

| **Expiry date** | **Exercise Price** | **Number of Warrants Outstanding and Exercisable** |
|---|---|---|
| | **$** | |
| April 11, 2014* | 1.20 | 804,688 |
| May 4, 2014** | 0.60 | 16,800 |
| September 30, 2014 | 0.60 | 4,065,000 |
| November 4, 2014 | 0.60 | 1,765,000 |
| September 30, 2015 | 0.80 | 4,088,100 |
| November 4, 2015 | 0.80 | 1,781,800 |
| March 6, 2016 | 0.60 | 5,000,000 |
| | | **17,521,388** |

***** Subsequent to March 31, 2014, these warrants expired.
** 13,800 of these warrants were exercised and 3,000 expired subsequent to March 31, 2014.

**Stock options**

The Company adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the requirements of the Exchange, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. Vesting terms are determined by the Board of Directors at the time of grant.

Stock option transactions and the number of stock options outstanding are summarized as follows:

| | **Number of Stock Options** | **Weighted Average Exercise Price** | **Weighted Average Fair Value** | **Weighted Average Remaining Life** |
|---|---|---|---|---|
| | | **$** | **$** | **(Years)** |
| Outstanding, January 1, 2013 | 2,555,500 | 0.84 | 0.58 | |
| Options granted | 1,575,000 | 0.63 | 0.29 | |
| Options exercised | (53,250) | 0.70 | 0.36 | |
| Options cancelled or forfeited | (188,000) | 1.22 | 0.82 | |
| Outstanding, December 31, 2013 and March 31, 2014 | 3,889,250 | 0.73 | 0.45 | 2.77 |

The fair values of the stock options granted during were estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for these options are as follows:

| | **For the three months ended March 31, 2014** | For the year ended December 31, 2013 |
|---|---|---|
| Risk-free interest rate | - | 1.26% |
| Annual dividends | - | - |
| Expected stock price volatility | - | 79.60% |
| Expected forfeiture rate | - | 18.79% |
| Expected life | - | 2.93 years |

The following incentive stock options were outstanding and exercisable at March 31, 2014:

| **Expiry date** | **Exercise Price** | **Number of Options Outstanding** | **Number of Options Exercisable** |
|---|---|---|---|
| | **$** | | |
| January 21, 2015 | 0.35 | 687,500 | 687,500 |
| April 1, 2015 | 0.75 | 40,000 | 40,000 |
| August 18, 2015 | 0.75 | 50,000 | 50,000 |
| November 2, 2015 | 0.70 | 275,000 | 275,000 |
| December 13, 2015 | 1.00 | 10,000 | 10,000 |
| December 29, 2015 | 1.05 | 15,000 | 15,000 |
| December 31, 2015 | 1.14 | 50,000 | 50,000 |
| February 7, 2016 | 1.56 | 100,000 | 100,000 |
| March 7, 2016 | 1.50 | 25,000 | 25,000 |
| March 23, 2016 | 1.53 | 300,000 | 300,000 |
| July 19, 2016 | 1.34 | 100,000 | 100,000 |
| August 2, 2016 | 0.60 | 50,000 | 50,000 |
| February 6, 2017 | 0.77 | 65,000 | 65,000 |
| April 3, 2017 | 0.70 | 100,000 | 100,000 |
| April 12, 2017 | 0.74 | 50,000 | 50,000 |
| May 31, 2017 | 0.70 | 96,750 | 96,750 |
| June 15, 2017 | 0.74 | 300,000 | 300,000 |
| January 7, 2018 | 0.90 | 30,000 | 30,000 |
| August 26, 2018 | 0.70 | 310,000 | 182,500 |
| November 4, 2018 | 0.60 | 1,195,000 | 970,000 |
| December 2, 2018 | 0.60 | 40,000 | 10,000 |
| | | **3,889,250** | **3,506,750** |

## 7. RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2014, a $19,500 (2013 - $19,500) expense was recorded for office facilities, corporate and administrative services provided by a company jointly controlled by a director of the Company, of which $7,080 is included in accounts payable and accrued liabilities as at March 31, 2014 (December 31, 2013 - $8,891).

During the three months ended March 31, 2014, a $45,000 expense (2013 - $45,000) was recorded for consulting services provided by a company jointly controlled by a director of the Company who resigned subsequent to March 31, 2014. Included in accounts payable and accrued liabilities at March 31, 2014 is an advance of $12,806 (December 31, 2013 - $15,750) made to this related company.

Included in prepaid expenses as at March 31, 2014 is $10,000 (December 31, 2013 - $10,000) advanced to the Chief Executive Officer of the Company for corporate expenses to be incurred on the Company's behalf. Included in accounts payable and accrued liabilities as at March 31, 2014 is $4,527 (December 31, 2013 - $8,271) owing to this officer.

Included in accounts payable and accrued liabilities as at March 31, 2014 is $23,585 (December 31, 2013 - $15,200) owing to the Executive VP, Operations; and $nil (December 31, 2013 - $4,057) owing to the Vice President, Environmental.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 8. SEGMENTED INFORMATION

The Company has one reportable operating segment, being the acquisition and exploration of mineral properties. Geographical information is as follows:

| | | **Net Comprehensive Loss** |
|---|---|---|
| | **For the Three Months Ended March 31, 2014** | For the Three Months Ended March 31, 2013 |
| | **$** | $ |
| Canada | **607,551** | 399,518 |
| United States | **1,128,301** | 1,028,027 |
| Total net comprehensive loss | **1,735,852** | 1,427,545 |

| | | **Non-current, Non-financial Assets as at** |
|---|---|---|
| | **March 31 2014** | December 31 2013 |
| | **$** | $ |
| Canada | **28,750** | 31,929 |
| United States | **2,055,628** | 2,027,935 |
| Total assets non-current, non-financial assets | **2,084,378** | 2,059,864 |

## 9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at March 31, 2014, the Company's financial instruments are comprised of cash, amounts receivable, reclamation deposits and accounts payable and accrued liabilities. With the exception of cash, all financial instruments held by the Company are measured at amortized cost. The fair values of these financial instruments approximate their carrying value due to their short-term maturities. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

| | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|
| | **$** | **$** | **$** |
| Cash | 3,044,553 | - | - |

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

*Currency risk*

A portion of the Company's expenses are incurred in United States dollars and financial instrument balances are held in this currency. A significant change in the currency exchange rates between the Canadian dollar relative to the United States dollar could have a negative effect on the Company's results of operations, financial position or cash flows.

The Company has not hedged its exposure to currency fluctuations and, as at March 31, 2014, the Company held $344,069 in net liabilities denominated in United States dollars. A prolonged $0.10 increase (decrease) in the value of the Canadian dollar compared with the United States dollar would result in a $34,407 foreign exchange gain (loss) based on United States dollar denominated net liabilities as at March 31, 2014.

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company believes that these sources will be sufficient to cover the likely short term cash requirements and further funding will be required to meet long-term requirements.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash is currently held in short-term interest bearing accounts which pay relatively low rates of interest, the Company considers the interest rate risk to be limited.

## 10. CAPITAL MANAGEMENT

The Company manages its capital structure, which comprises the components of shareholders' equity, and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and will attempt to raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the three months ended March 31, 2014. The Company is not subject to externally imposed capital requirements.

## 11. LOSS PER SHARE

The numerators and denominators of basic and diluted loss per share for the three months ended March 31, 2014 and March 31, 2013 are as follows:

| | **For the three months Ended March 31, 2014** | For the three months Ended March 31, 2013 |
|---|---|---|
| Net loss (numerator) | **$(1,735,852)** | $(1,427,545) |
| Basic and diluted weighted average number of common shares outstanding (denominator) | **50,139,920** | 33,567,442 |
| Basic and diluted loss per share | **$(0.03)** | $(0.04) |

The Company incurred net losses for all periods reported, so no dilutive impact of in-the-money stock options and warrants has been included in the calculation of diluted weighted average number of common shares outstanding.

## 12. COMMITMENTS AND CONTINGENCIES

The Company is committed to the following expenditures as at March 31, 2014:

| Nature of payment | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Mineral rights[1] | US$114,000 | US$144,000 | US$144,000 | US$144,000 | US$144,000 |
| Water rights[2] | US$150,000 | US$150,000 | US$125,000 | US$125,000 | US$125,000 |
| Equipment[3] | EUR88,500 | | | | |
| Office lease | Cdn$105,612 | Cdn$140,816 | Cdn$140,816 | - | - |

1. As described in Note 5, the Company makes NSR prepayments in order to acquire and maintain mineral rights to its properties. To maintain certain of its properties in good standing, the Company is required to continue making these payments. While not contractually committed to further payments, the Company considers these to be constructive commitments.
2. As described in Note 5, the Company makes annual rental payments to maintain water rights for its properties. While not contractually committed to further payments, the Company considers these to be constructive commitments.
3. As described in Note 4, the Company made an instalment payment towards the purchase of equipment in 2013. Remaining instalments of 88,500 Euros are expected in 2014.

As discussed in Note 6, the Company has 200,000 RSUs outstanding that would result in the issuance of up to 200,000 common shares, contingent on meeting certain operational milestones. As the events that would result in the issuance of these shares have not occurred, no provision for their payment has been recorded.

As discussed in Note 6, up to 867,500 of the Company's shares are issuable upon meeting various milestones for the development of the Gibellini property and for achieving certain strategic objectives. As the events that would result in the issuance of these shares had not occurred as at December 31, 2013, no provision for their payment has been recorded.

## 13. EVENTS AFTER THE REPORTING PERIOD

On May 8, 2014, the Company completed the second tranche of a non-brokered private placement (Note 6) of 2,500,000 common share units at a price of $0.40 per unit for gross proceeds of $1,000,000. Each unit consists of one common share and one-half of one common share purchase warrant. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $0.60 until May 8, 2016.